



# Local Government in Poland

## Responses to Urban-Rural Challenges

edited by

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The H2020-MSCA-RISE-2018 project aims to provide solutions for local governments that address the fundamental challenges resulting from urbanisation. To address these complex issues, 18 partners from 17 countries and six continents share their expertise and knowledge in the realms of public law, political science, and public administration. LoGov identifies, evaluates, compares, and shares innovative practices that cope with the impact of changing urban-rural relations in major local government areas (WP 1-5).

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## Local Financial Arrangements



## 3.2. Investment Expenditure of Local Governments: The Role of European Funds in the Financial Strategies of Rural *gminas*

Andżelika Mirska, *University of Warsaw*

### Relevance of the Practice

The consequence of Poland's accession to the EU was, among others, the access of local governments to new financial resources. Polish local governments take this opportunity on a mass scale – there are many good practices in this area. Undoubtedly, the European Union funding contributes significantly to the development and modernization of local government.

The rural settlement fragmentation is a significant problem of many communes in Poland. The fact that localities with up to 200 residents constitute almost 50 per cent of all these units is evidenced by the scale of this phenomenon. The most fragmented rural settlement network can be found in north-eastern and central Poland. This conditioning is a factor limiting the possibility of implementing many linear investment projects. Therefore, there is a limited possibility of applying for EU funding by units located in typical rural areas despite the existing investment needs, both for financial reasons (low own capability, high investment implementation costs) and technical reasons (investment in large sections without buildings)<sup>76</sup>.

The problem of reducing the differences in development and living standards between microregions also concerns the development disproportions equalization in urban and rural areas in Poland. One of the ways to increase the development opportunities of communes in rural areas is to improve their competitiveness. EU funds are the most important financial instruments of the EU regional policy influencing the increase in the communes' competitiveness.

Additional external financial means may have significant multiplier effects in communes located in rural areas in case of affecting the multifunctional development of such areas. These funds should be invested primarily in the widely understood infrastructure, i.e. public facilities enabling economic and social development and environmental protection.

Poorly developed technical, social and environmental infrastructure is one of the most serious barriers to the communes' competitiveness growth in rural areas. The weak infrastructure level

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<sup>76</sup> Jacek Sierak, 'Alokacja funduszy unijnych a wydatki inwestycyjne gmin' (2018) 93 Optimum. Economic Studies 195, 206  
<[https://repozytorium.uwb.edu.pl/jspui/bitstream/11320/7372/1/Optimum\\_3\\_2018\\_J\\_Sierak\\_Alokacja\\_funduszy\\_unijnych.pdf](https://repozytorium.uwb.edu.pl/jspui/bitstream/11320/7372/1/Optimum_3_2018_J_Sierak_Alokacja_funduszy_unijnych.pdf)> accessed 2 November 2019.



leads to worse living standards and these areas are not made an interesting place to live and invest. Infrastructure is the fundament of any business. The appropriate infrastructure level in the area is a necessary condition for economic activation. Therefore, improving the communes' competitiveness in rural areas requires greater saturation with the infrastructure of rural areas. On the one hand, the grounds for investor interest are created whereas the residents' life quality is increased in a given area<sup>77</sup>. Rural areas with a weak infrastructure level are mostly depopulated areas. Infrastructure-neglected communes are characterized by the highest percentage of people employed in agriculture, and the lowest in non-agricultural sectors of the economy.

According to the research, infrastructure investments are also highly anticipated by local communities.

Due to EU funds, the local government units are able to implement investments significantly exceeded their financial capabilities, limited by the level of their own income, especially with regards to rural communes.<sup>78</sup>

## Description of the Practice

The Polish local government is facing growing expectations of the residents, who are demanding faster construction and modernization of local infrastructure and improved quality of local public services. Therefore, the main problem for the local government is to raise funds for investments and local development.

At the end of 2019, all *gminas* in Poland implemented EU projects (under the 2014-2020 Financial Perspective). In respect of absolute values, Warsaw is unrivalled. The value of project co-financing agreements in the capital city approached PLN 20 billion (approx. EUR 5 billion). The list of *gminas* where investments have the highest value per capita is topped by rural *gminas*.

The projects structure detailed analysis presents the significant difference considering the activities co-financed from EU funds in communes representing different types. Rural and urban-rural area communes' activities are targeted at the social infrastructure modernization (mainly culture centers), and then at the technical infrastructure development and modernization. However, the technical infrastructure was primarily developed and

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<sup>77</sup> Anna Katola, 'Wpływ wykorzystania funduszy unijnych na wzrost konkurencyjności gmin' (2006) 25 *Studia i Prace Wydziału Nauk Ekonomicznych i Zarządzania* 161 <[https://wneiz.pl/nauka\\_wneiz/sip/sip25-2012/SiP-25-161.pdf](https://wneiz.pl/nauka_wneiz/sip/sip25-2012/SiP-25-161.pdf)>.

<sup>78</sup> Maciej Stawicki, 'The Use of European Funds by Communes in 2004–2009' (2011) 14 *EJPAU*, 91; Małgorzata Dudzińska and Barbara Prus, 'Level of Socio-Economic Conditions of Municipalities and Effectiveness and Quantity of Procurement of Support with EU Funds for Projects Infrastructure Investment. Case Studies' (2017) 1 *Infrastruktura i Ekologia Terenów Wiejskich* 155 <[http://www.infraeco.pl/pl/art/a\\_18193.htm?plik=2051](http://www.infraeco.pl/pl/art/a_18193.htm?plik=2051)>.





modernized by the urban communes as well as the scholarship programs organization for pupils and students.

The investments in cultural facilities such as the community centers renovation, the cultural centers equipment, etc. are the most common activities undertaken in rural areas. Projects depending on the construction or modernization of water and sewage networks, and roads were considered in what follows. The sports facilities development (mainly sports fields, gyms) and recreational facilities (e.g. playgrounds), as well as the public spaces and facilities renovation played a crucial role.

## Assessment of the Practice

The investment potential of *gminas* consists of three elements:

- own potential (operating surplus);
- external support (subsidies, especially from EU funds);
- credit financing, depending on creditworthiness.

It follows from the above that EU funds may be used by *gminas* which have their own financial reserves. In addition, there are legal provisions in force that prohibit *gminas* from over-indebtedness. Without an increase in their income, they will not be able to benefit from subsidies from EU funds and this will reduce investments. The key question is what strategies are adopted by local governments based on their financial situation and what factors determine the selected investments. Do rural self-governments implement programs dedicated to them, e.g. Rural Development Program 2014-2020 financed by the EU?

According to the research, investments provided by rural communes' local governments financed with EU funds made no significant difference in creating conditions for stimulating the local economy in rural areas.

It emerges that the European funds were mainly used to improve the residents' quality of life by implementing municipal investments in education, culture, leisure or environmental protection areas (infrastructure expenditure aimed at improving the rural quality of life). Furthermore, to a small extent the investments were allocated to create better conditions for rural economic activity.

The increasing number of residents by several per cent was also observed in rural areas using on the widest-ranging scale from European funds. Due to EU funds, it was certainly crucial to improve technical and social infrastructure in rural areas.<sup>79</sup>

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<sup>79</sup> Agnieszka Cyburt, 'The Activity of Local Governments in the Absorption of EU Funds as a Factor in the Development of Rural Communes' (2014) 13 *Oeconomia* 31; Magdalena Wojarska and Renata Marks-Bielska, 'Fundusze Unii Europejskiej jako źródło finansowania rozwoju lokalnego gmin województwa warmińsko-





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